

1. Study the extract below and answer the questions that follow.

Luxpro sues Apple for \$100 million

- ❶ Taiwanese manufacturer Luxpro is suing Apple for \$100 million after a court ruled that Luxpro could continue producing its MP3 music player that closely resembles Apple's iPod shuffle. Luxpro first upset Apple back in March 2005 when it introduced its copy of the iPod shuffle. Apple claimed that the copy, known as Tangent, too closely resembled the iPod shuffle and so Apple believed it would unfairly lose **abnormal profits** if Luxpro's Tangent MP3 player was allowed into the market.
- ❷ In July 2005, a court in Taiwan accepted Apple's case against Luxpro and forced Luxpro to stop manufacturing its Tangent MP3 players. But this week, an appeals court reversed that decision and now Luxpro wants \$100 million as compensation for the losses it suffered when it was forced to stop production over the past 18 months. According to Luxpro, it lost valuable market opportunities and a substantial number of orders.
- ❸ In its case against Apple, Luxpro claims Apple threatened retaliation against stores that carried the Tangent line. Those threats, according to Luxpro, included the removal of iPod products from any store that did not take Luxpro's players off the shelves.
- ❹ Luxpro maintains that its MP3 players are significantly different from the iPod shuffle. The company says its Luxpro logo is clearly displayed on the player and it has an organic light emitting diode (OLED) display that the iPod shuffle doesn't have. This is clear evidence of **product differentiation**.
- ❺ Although Apple enjoyed one of its best years on record in 2006, the computer and electronics maker started 2007 on difficult legal grounds. Aside from the Luxpro case, there have been several lawsuits against the company. According to news reports, one case complains about Apple's use of a copy-protection system that prevents iTunes music and videos from easily being transferred to non-iPod media players.
- ❻ The case claims that Apple has created an illegal monopoly by linking the iTunes store to the iPod. It also claims iPods do not easily play songs purchased from music stores other than iTunes.

[Source: adapted from http://www.newsfactor.com/news/Luxpro-Levels--100M-Suit-Against-Apple/story/xhtml?story_id=011000MXIDJX NewsFactor.com, Tim Gray, 5 January 2007]

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(Question 1 continued)

- (a) Define the following terms indicated in bold in the text:
- (i) abnormal profits (*paragraph 1*) *[2 marks]*
 - (ii) product differentiation (*paragraph 4*). *[2 marks]*
- (b) Using an appropriate diagram, explain how Apple might have thought it would lose abnormal profits due to the introduction of the Tangent MP3 player (*paragraph 1*). *[4 marks]*
- (c) With reference to the text, explain which market structure the MP3 player industry most closely represents. *[4 marks]*
- (d) Using information from the text/data and your knowledge of economics, evaluate the view that the government should regulate the competitive behaviour of Apple. *[8 marks]*